

Puerto Rico



Taxes on personal income



# Puerto Rico

## Individual - Taxes on personal income

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Puerto Rican residents are taxed in Puerto Rico on their worldwide income, no matter where the income is sourced. Puerto Rican non-residents are only taxed in Puerto Rico on their Puerto Rico-source income. Income for services performed is sourced to Puerto Rico based on where the services are performed. Such income is typically prorated to Puerto Rico based on workdays.

Puerto Rico has a *de minimis* rule to avoid sourcing to Puerto Rico very small amounts of income from personal services. Income from personal services performed within Puerto Rico will not be considered from Puerto Rican sources if it is USD 3,000 or less and the individual was present in Puerto Rico for 90 days or less during the calendar year (such personal services must have been provided to an employer who is not engaged in trader or business in PR) .

### Personal income tax rates

The following regular tax rates remain in effect for 2018 and future years:

Net taxable income (USD)	Tax
Not over 9,000	0%
Over 9,000, but not over 25,000	7% of the excess over USD 9,000
Over 25,000, but not over 41,500	USD 1,120 plus 14% of the excess over USD 25,000
Over 41,500, but not over 61,500	USD 3,430 plus 25% of the excess over USD 41,500
Over 61,500	USD 8,430 plus 33% of the excess over USD 61,500

### Gradual adjustment tax

If the individual's net taxable income exceeds USD 500,000, they will have to pay an additional tax (i.e. gradual adjustment tax). This tax is 5% of the excess of the total net taxable income over USD 500,000, limited to 33% of their personal and dependents' exemption plus USD 8,895.

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## Alternate basic tax (ABT)

In addition to the regular income tax, individuals are required to compute an ABT assessed in accordance to the below tax table. The ABT taxable income is computed by adding back certain income items exempt from regular income tax.

### ABT rates:

Net income subject to ABT (USD)	Tax (%)
In excess of 25,000 but not more than 50,000	1
In excess of 50,000 but not more than 75,000	3
In excess of 75,000 but not more than 150,000	5
In excess of 150,000 but not more than 250,000	10
In excess of 250,000	24

The credit for prior years' ABT liability may not be sold, transferred, or refunded. When determining the net income subject to ABT, this credit will be reduced by the portion of the ABT attributable to non-deductible expenses.

The ABT will not be applicable to individuals whose only source of income is from salaries informed in a Withholding Statement.

For tax years after 31 December 2019, an individual's total tax will be 95% of one's total tax determined (regular tax plus gradual adjustment) if gross income exceeds \$100,000, if gross income is \$100,000 or less, then the individuals total tax will be 92% of one's total tax determined.

### New optional tax for self-employed individuals rendering services

Self-employed individuals whose income is derived substantially from the business of rendering services may elect to pay an optional tax on gross income instead of the income tax otherwise imposed by the Code on net income, as follows:

Gross income (USD)	Tax (%)
Not greater than 100,000	6
In excess of 100,000 but not more than 200,000	10
In excess of 200,000 but not more than 300,000	13
In excess of 300,000 but not more than 400,000	15



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The income received must be substantially from the provision of services. For these purposes, accrued income will be considered to come substantially from services rendered when said income category represents at least 80% of the total gross income received during the taxable year.

In addition, to use the optional computation of tax, the total gross self-employment income must be subject to withholding at source or to estimated tax payments and must be reported in an Informative Return.

The new optional tax is applicable for taxable years that commence after 31 December 2018.



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